



38 CFR Part 1

RIN 2900-AR20

Threshold for Reporting VA Debts to Consumer Reporting Agencies

AGENCY: Department of Veterans Affairs.

ACTION: Final rule.

SUMMARY: The Department of Veterans Affairs (VA) amends its regulations around the conditions by which VA benefits debts or medical debts are reported to consumer reporting agencies (CRA). The Johnny Isakson and David P. Roe, M.D. Veterans Health Care and Benefits Improvement Act of 2020 provides the Secretary authority to prescribe regulations that establish the minimum amount of a benefits or medical debt that the Secretary will report to the CRA. This change will establish the methodology for determining a minimum threshold for debts reported to CRA.

DATES: This rule is effective [insert date 30 days after date of publication in the FEDERAL REGISTER].

FOR FURTHER INFORMATION CONTACT: Jason Hoge, Director of Operations, Debt Management Center, Office of Management, 189, 1 Federal Drive, Suite 4500, Fort Snelling, MN 55111, (612) 725-4337. (This is not a toll-free telephone number.)

SUPPLEMENTARY INFORMATION: On July 23, 2021 (86 FR 38958), VA published a proposed rule in the Federal Register that would significantly reduce the amount of VA debts referred to the CRA. VA provided a 60-day comment period, which ended on September 21, 2021. VA received nine comments on the proposed rule.

Summary of Regulatory Changes

This final rule amends VA's regulation that governs reporting of delinquent debts to CRA. This rulemaking would update the regulation to comply with section 2007 of Public Law 116-315, the Johnny Isakson and David P. Roe, M.D. Veterans Health Care

and Benefits Improvement Act of 2020. Section 2007 amends chapter 53 of title 38, United States Code by adding section 5320 as follows: “The Secretary shall prescribe regulations that establish the minimum amount of a claim or debt, arising from a benefit administered by the Under Secretary for Benefits or Under Secretary for Health, that the Secretary will report to a consumer reporting agency under section 3711 of title 31.”

This amendment will establish the methodology for determining the minimum threshold for reporting certain VA debts to CRA. It will also exclude from the minimum threshold those debts in which there is an indication of fraud, misrepresentation, or bad faith on the part of the debtor.

Background on Governing Statutes

The Debt Collection Improvement Act of 1996 (DCIA), in part, mandated agencies to report delinquent debts to CRA. 31 U.S.C. 3711(e); Sec. 31001(k), Pub. L. 104-134, 110 Stat. 1321. The purpose of the DCIA includes maximizing collection of delinquent debts by ensuring quick action to recover debts, use of appropriate collection tools, and minimizing the costs of debt collection. Sec. 31001(b), Pub. L. 104-134.

Section 5320 of title 38, United States Code, authorizes VA to “establish the minimum amount of a claim or debt, arising from a benefit administered by the Under Secretary for Benefits or Under Secretary for Health, that the Secretary will report to a consumer reporting agency under section 3711 of title 31.” The intent of section 5320 is to lessen negative impact of CRA reports on Veterans.

Introduction to Regulatory Changes

As explained in more detail below, we amend 38 CFR 1.916 to comply with 38 U.S.C. 5320, to establish a minimum threshold for reporting debts to CRA.

In accordance with 31 U.S.C. 3711(e), the VA Debt Management Center (DMC) is responsible for reporting delinquent debts to CRA. Prior to January 5, 2021, DMC

reported an average of 5,000 delinquent Veteran accounts monthly. DMC regularly receives complaints from Veterans whose accounts have been reported to CRA. Common complaints from Veterans include loss of security clearance, inability to obtain approval for home loans or home refinancing, and difficulty securing rental housing. This amendment recognizes that the debts described in 38 U.S.C. 5320 are fundamentally different from consumer debt. Debts arising from a benefit administered by the Under Secretary for Benefits or the Under Secretary for Health may result from a variety of scenarios, including overpayments that are not the fault of the Veteran.

Section 5320 authorizes the Secretary to establish a minimum threshold that will ultimately reduce the number of debts that will be reported to CRA. This will, in turn, decrease the number of Veterans negatively impacted by these reports. The VA's mission is to "fulfill President Lincoln's promise 'To care for him who shall have borne the battle, and for his widow, and his orphan' by serving and honoring the men and women who are America's Veterans." Negative credit reports may cause housing insecurity or job loss, and this result is inconsistent with VA's mission.

38 CFR 1.916 Disclosure of debt information to consumer reporting agencies (CRA).

We amend 38 CFR 1.916, which sets forth the requirements for reporting delinquent debts to CRA, by inserting paragraphs (c)(1) through (3) to provide the methodology used by the Secretary to establish the minimum threshold. This section would also clarify that the minimum threshold applies only to a debt of an individual that arises from a benefit administered by the Under Secretary for Benefits or Under Secretary for Health.

We add paragraphs (c)(1) through (3) to provide that:

- The Secretary has established a minimum threshold for a debt, arising from a benefit administered by the Under Secretary for Benefits or Under Secretary for

Health, that the Secretary will report to a consumer reporting agency under section 3711 of title 31.

- VA will only report those debts that meet the following standards:
 - The debt is classified as currently not collectible. For purposes of this paragraph, the debt is currently not collectible if VA has exhausted available collection efforts, including, as appropriate, referrals for administrative offset and enforced collection;
 - The debt is not owed by an individual who is determined by VA to be catastrophically disabled or has reported to VA a gross household income below the applicable geographically adjusted income limits that would entitle a VA beneficiary to cost-free health care, medications and/or beneficiary travel; and
 - The outstanding debt amount is over \$25, or such higher amount VA may from time to time prescribe, in accordance with § 1.921 of the part.
- The minimum threshold set forth in the paragraph will not apply if there is an indication of fraud, misrepresentation, or bad faith on the part of the individual in connection with the debt.

Positive Comments

Most commenters were in support of the proposed rule. One commenter stated that the rule will make life easier for Veterans, particularly those who have experienced conditions that require them to receive financial assistance from VA. Another commenter stated the rule demonstrates that VA recognizes these debts are not like consumer debts and result from many sources, including some that are of no fault of the Veteran. The commenter added the proposed rule makes it clear that VA understands that fraudulent and misrepresented claims should not be tolerated, and these are

exempt from the proposed rule, as they should be. An additional commenter similarly mentioned that these debts should be recognized differently from consumer debts as many times it is not the fault of the Veteran, and we should be protecting those who serve us.

VA thanks the commenters for their support of the rule. We are not making any changes based on these comments.

Comments on referral of medical debts

One commenter stated there should never be a time Veteran medical debts should be reported to a credit reporting agency. The commenter added that reporting Veterans for non-payment or delinquent status of a medical debt can further add to the mental and emotional turmoil most are already dealing with.

Another commenter suggested expanding reporting restrictions to Veterans in priority groups one through seven. The commenter states the proposed criteria would effectively exclude Veterans in VA health care priority groups four and five but leave several categories of Veterans unprotected. The commenter added Veterans should be as insulated as possible from the negative consequences of having medical debt included in their credit reports and urged the VA to exclude all delinquent debts held by Veterans in priority groups one through seven.

VA acknowledges and understands the concern with reporting medical debts to CRA. However, the proposed rule states VA will only report debts that are considered currently not collectible, the debt is not owed by an individual who is determined catastrophically disabled or has a gross household income below the applicable geographically adjusted income limit, and the outstanding debt amount is over \$25. When considering VA medical debts that fall under these conditions, VA is obligated by

the Debt Collection Improvement Act (DCIA) to report delinquent debts to the CRA.

Through VA's analysis and determination of the referral conditions, the current rule is projected to result in a significant reduction in referred debts while continuing to comply with DCIA. Therefore, VA is not making changes based on these comments.

Comment on minimum threshold amount

Several commenters voiced concern over the \$25 minimum threshold amount. One commenter suggested the \$25 threshold be increased to \$1,000 since this would more likely represent a common loan borrowed on the regular marketplace. The commenter also stated a significant amount of Veterans face housing and job insecurity, even with benefits extended to them, so the proposed threshold requirement should be higher.

Another commenter stated by setting a low monetary threshold of \$25, it is hard to imagine there will be a significant reduction in debt reporting. The same commenter suggested the VA set the minimum threshold at the 10 percent rating monthly rate.

One commenter suggested to substantially increase the proposed dollar amount from \$25 to a higher threshold that would follow various characteristics about Veterans' delinquent debt, such as the median medical collections tradeline provided by Consumer Financial Protection Bureau (CFPB). The commenter further explains the CFPB reports that the addition of any paid or unpaid collections tradeline can significantly reduce a credit score and may even preclude individuals from accessing the credit market altogether.

VA considered several different threshold amounts and after thorough analysis came to the threshold as proposed in the rule which includes four criteria: 1) The debt is classified as currently not collectible; 2) The debt is not owed by an individual who is

determined by VA to be catastrophically disabled or has reported to VA a gross household income below the applicable geographically adjusted income limits; 3) The outstanding debt amount is over \$25.00; and 4) There is no indication of fraud, misrepresentation, or bad faith on the part of the individual in connection with the debt. Based on the comprehensive impact of the criteria in addition to the dollar amount, VA is not making changes based on these comments.

Comments on definition of catastrophically disabled Veteran

One commenter suggested expanding its exemptions to all totally and permanently disabled Veterans as an additional way to lessen the impact of CRA reporting. Another commenter stated VA should align the “catastrophically disabled” rule to meet the Department of Education’s Total and Permanent Disability Discharge program. The commenter states VA’s use of “catastrophically disabled” in the proposed rule places a significantly higher standard even though a rating of 100% or a finding of total disability makes it just as unreasonable to expect the Veteran to be able to repay the debt. One commenter made a similar suggestion that VA should consider expanding its exemptions to all totally and permanently disabled Veterans as an additional way to lessen the impact of CRA reporting.

As stated in the proposed rule, VA will only report debts to CRA if the debt is not owed by an individual who is determined to be catastrophically disabled or has reported to VA a gross household income below the applicable geographically adjusted income limits. Due to the requirements of the DCIA and the Johnny Isakson and David P. Roe, M.D. Veterans Health Care and Benefits Improvement Act of 2020, VA is not making changes based on these comments.

Comments on Veteran benefits

One commenter stated benefits or entitlements for Veterans should not end once they are no longer in the service due to medical issues or disabilities caused by their time in the military. It was also suggested that all Veterans should have a counselor of some sort to inform them of their financial responsibilities in connection with receiving services. Another commenter stated Veterans need more support and access to benefits than what is currently available, and the benefits that are available should not be allowed to negatively impact Veterans on the housing and job market.

VA acknowledges the concerns addressed in these comments; however, the comments do not directly correlate with the proposed rulemaking so VA will not be making any changes based on these comments.

Comment on referral of education debts

One commenter stated the proposed rule should be revised to exempt, or at a minimum, specifically restrict the reporting of educational overpayment debts to a CRA since most of these debts are caused by error or delay by VA or an institution.

Effective January 5, 2021, Public Law 116-315 section 1019 was enacted, making the school, instead of the student, financially liable for payments such as tuition, fees, and Yellow Ribbon paid directly to a school. Therefore, any educational overpayment debt owed to the VA would be a books and supplies or housing debt. Students currently enrolled in school would have their debts offset by their VA benefits so there should be very few debts classified as currently not collectible in this category. Due to the fact that reporting educational overpayment debts to CRA is a rare occurrence, VA is not making changes based on this comment.

Comment on referral of debts under dispute by a Veteran

One commenter suggested the VA should prohibit reporting of any debt to a CRA that is being disputed until an individual's dispute or appeal is resolved. The commenter states if the dispute is found in favor of the Veteran, the inaccurate negative credit report may have caused irreversible financial harm, such as the loss of a security clearance, inability to obtain credit for the purchase of a home or vehicle, and inability to secure rental housing.

When an individual timely disputes or appeals his or her VA debt, VA pauses collection on the debt, and the debt would not be referred to CRA until the dispute or appeal has been resolved. The determination of currently not collectible would come well after any resolution of a dispute. VA is not making changes based on this comment.

Based on the rationale set forth in the **SUPPLEMENTARY INFORMATION** to the proposed rule and in this final rule, VA is adopting the proposed rule with no changes.

Executive Orders 12866 and 13563

Executive Orders 12866 and 13563 direct agencies to assess the costs and benefits of available regulatory alternatives and, when regulation is necessary, to select regulatory approaches that maximize net benefits (including potential economic, environmental, public health and safety effects, and other advantages; distributive impacts; and equity). Executive Order 13563 (Improving Regulation and Regulatory Review) emphasizes the importance of quantifying both costs and benefits, reducing costs, harmonizing rules, and promoting flexibility. The Office of Information and Regulatory Affairs has determined that this rule is not a significant regulatory action under Executive Order 12866. The Regulatory Impact Analysis associated with this rulemaking can be found as a supporting document at www.regulations.gov.

Regulatory Flexibility Act

The Secretary hereby certifies that this rule will not have a significant economic impact on a substantial number of small entities as they are defined in the Regulatory Flexibility Act (5 U.S.C. 601-612). The regulations established by this rulemaking do not impose burdens or otherwise regulate the activities of any small entities outside of VA. Therefore, pursuant to 5 U.S.C. 605(b), the initial and final regulatory flexibility analysis requirements of 5 U.S.C. 603 and 604 do not apply.

Paperwork Reduction Act

This rule contains no provisions constituting a collection of information under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3521).

Unfunded Mandates

The Unfunded Mandates Reform Act of 1995 requires, at 2 U.S.C. 1532, that agencies prepare an assessment of anticipated costs and benefits before issuing any rule that may result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of \$100 million or more (adjusted annually for inflation) in any one year. This final rule will have no such effect on State, local, and tribal governments, or on the private sector.

Congressional Review Act

Pursuant to Subtitle E of the Small Business Regulatory Enforcement Fairness Act of 1996 (known as the Congressional Review Act) (5 U.S.C. 801 *et seq.*), the Office of Information and Regulatory Affairs designated this rule as not a major rule, as defined by 5 U.S.C. 804(2).

List of Subjects in 38 CFR Part 1

Administrative practice and procedure, Archives and records, Cemeteries, Claims, Courts, Crime, Flags, Freedom of information, Government contracts, Government

employees, Government property, Infants and children, Inventions and patents, Parking, Penalties, Postal Service, Privacy, Reporting and recordkeeping requirements, Seals and insignia, Security measures, Wages.

Signing Authority

Denis McDonough, Secretary of Veterans Affairs, approved this document on December 2, 2021, and authorized the undersigned to sign and submit the document to the Office of the Federal Register for publication electronically as an official document of the Department of Veterans Affairs.

Jeffrey M. Martin,

Assistant Director,

Office of Regulation Policy & Management,

Office of General Counsel,

Department of Veterans Affairs.

For the reasons stated in the preamble, the Department of Veterans Affairs amends 38 CFR part 1 as set forth below:

PART 1 – GENERAL PROVISIONS

1. The authority citation for part 1 is revised to read as follows:

AUTHORITY: 31 U.S.C. 3711(e); 38 U.S.C. 501, 5701(g) and (i); 38 U.S.C. 5320.

2. Amend § 1.916 by revising paragraph (c) to read as follows:

§ 1.916 Disclosure of debt information to consumer reporting agencies (CRA).

* * * * *

(c) Subject to the conditions set forth in this paragraph (c) and paragraph (d) of this section, information concerning individuals may be disclosed to consumer reporting agencies for inclusion in consumer reports pertaining to the individual, or for the purpose of locating the individual. Disclosure of the fact of indebtedness will be made if the individual fails to respond in accordance with written demands for repayment, or refuses to repay a debt to the United States. In making any disclosure under this section, VA will provide consumer reporting agencies with sufficient information to identify the individual, including the individual's name, address, if known, date of birth, VA file number, and Social Security number.

(1) The Secretary has established a minimum threshold for a debt, arising from a benefit administered by the Under Secretary for Benefits or Under Secretary for Health, that the Secretary will report to a consumer reporting agency under 31 U.S.C. 3711.

(2) VA will only report those debts that meet the following standards:

- (i) The debt is classified as currently not collectible. For purposes of this paragraph (c)(2)(i), the debt is currently not collectible if VA has exhausted

available collection efforts, including, as appropriate, referrals for administrative offset and enforced collection;

(ii) The debt is not owed by an individual who is determined by VA to be catastrophically disabled or has reported to VA a gross household income below the applicable geographically adjusted income limits that would entitle a VA beneficiary to cost-free health care, medications and/or beneficiary travel; and

(iii) The outstanding debt amount is over \$25, or such higher amount VA may from time to time prescribe, in accordance with § 1.921.

(3) The minimum threshold set forth in this paragraph (c) will not apply if there is an indication of fraud, misrepresentation, or bad faith on the part of the individual in connection with the debt.

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